



SUMMARY
Testimony of Geoff Sundstrom
AAA
Before the House Energy and Commerce Committee
May 10, 2006

Introduction

AAA is the largest motorist organization in North America with almost 50 million members in the U.S. and Canada. AAA members drive approximately 25 percent of all the motor vehicles in operation in this country. We estimate they will purchase approximately 33 billion gallons of gasoline this year and at current prices will spend an estimated \$96.4 billion on gasoline.

Impact on Consumer

Since the beginning of 2006, the national average price of self-serve regular unleaded gasoline has jumped from \$1.78 per gallon to \$2.92 per gallon: a whopping increase of \$1.14 per gallon. This year's price increase will cost a typical family about \$1,260 more per year in gasoline expenditures, or about \$100 more each time the monthly gasoline credit card statement arrives in the mail.

Time to exercise more control over our own destiny

1. Motorists must reduce consumption. AAA will continue to educate the public on steps they can take to drive more efficiently.
2. AAA believes the nation – industry and government – must commit to achieving higher fuel economy standards on all vehicles.
3. Government should work with the private sector to develop alternative fuel and vehicle programs.
4. AAA believes that Congress and the Administration should explore measures that would enable a minimum level of mandatory refined product of gasoline inventories. Such a system exists in Europe and was able to provide critical gasoline to the U.S. during production shortfalls that occurred following last year's hurricanes. Should similar or worse disasters occur in the future, our ability to immediately move gasoline to areas that need it will again be critical.
5. More planning must be done to ensure fuel is available during evacuations, in the immediate aftermath of storms or from other widespread damage, and in areas far-removed from a disaster site that might lose access to energy resources.
6. AAA encourages federal and state officials to reach agreement on the use of a smaller number of fuel blends that will meet or exceed our clean air goals and be as widely used as possible.



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TESTIMONY OF AAA
BEFORE THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE

"Gasoline: Supply, Price and Specifications"

GEOFF SUNDSTROM
DIRECTOR, AAA PUBLIC AFFAIRS

MAY 10, 2006

Mr. Chairman: My name is Geoff Sundstrom, and I am the American Automobile Association's Director of Public Affairs. I am AAA's primary spokesperson on motor fuel issues and have oversight responsibility for AAA's widely-sourced Fuel Gauge Report Web site which tracks national, state and local fuel prices each day. I also work with local AAA clubs on fuel price inquiries from members and the media in your home districts.

AAA appreciates your invitation to appear before the Energy and Commerce Committee to discuss the rising price of gasoline. As you may know, AAA is the largest motorist organization in North America with nearly 50 million members in the United States and Canada. Our members drive approximately 25 percent of all the motor vehicles in operation in this country. Using figures from the U.S. Department of Transportation, we estimate they will

purchase approximately 33 billion gallons of gasoline this year and at current prices will spend an estimated \$96.4 billion on gasoline.

Unlike others that testify on this issue, AAA has no involvement in the regulation, refining, shipping, blending or sale of gasoline. We represent the end-users of this increasingly contentious, yet completely indispensable product. Our members are your constituents and as you know, they are very concerned about whether gasoline is going to remain readily available at a reasonable cost in the United States, or if we are slowly moving toward an era of much higher prices with even less reliable supplies of fuel.

After Hurricane Katrina ravaged New Orleans and the Gulf Coast, Americans paid the highest prices ever for a gallon of gasoline in this country: an average of \$3.05 per gallon on Labor Day Monday of last year.

As frustrating and unpleasant as that experience was, the public clearly understood that a dramatic natural disaster had befallen the southeastern United States. They heard and read that the storm harmed vital components of our energy infrastructure. And while fuel prices were exceptionally high, it was a common belief that the situation would be temporary and that gas prices would come back down.

Since the beginning of 2006, however, the national average price of self-serve regular unleaded gasoline has jumped from \$1.78 per gallon to \$2.92 per gallon; a whopping increase of \$1.14 per gallon. With hurricane season around the corner, and because fuel prices now seem to be rising significantly higher with each passing year, many motorists are alarmed that rising gas prices have become a permanent part of our lives in this country.

They are concerned because this year's price increase will cost a typical family about \$1,260 more per year in gasoline expenditures, or about \$100 more each time the monthly gasoline credit card statement arrives in the mail. AAA calculates this increase on the assumption that the average vehicle consumes 550 gallons of gasoline each year as reported by the Federal Highway Administration and the average household owns more than two vehicles.

An extra hundred dollars per month may not sound like much to some people, but it is helpful to remember that an estimated 50 percent of American families say they always or frequently live paycheck to paycheck, according to research by the Consumer Federation of America, and the median household income in the United States is \$45,000 per year, according to the U.S. Census Bureau. With these realities in mind, it is easier understand why a sharp, unexpected hike in fuel prices can be a threatening financial setback for many citizens.

Of course, pain at the pump is not felt equally. It depends on where you are on the economic ladder. If you are among the sizeable group that can readily afford a large, luxury vehicle that may not be especially fuel-efficient, the high price of fuel is mostly an annoyance.

Or, if you are an urban dweller with access to mass transit, and one who rarely if ever drives a car, gas prices may be little more than an abstraction. But for most of America's 200 million licensed drivers, high gas prices are a real problem.

Part of the focus of today's hearing is to discuss what else the Federal government might do to help reign in the price of gasoline or help offset its impact on motorists. AAA has a few ideas to share with you.

The energy problems consumers are experiencing today will not be solved overnight. Although our association has worked for many years to encourage fuel conservation by motorists and has provided members and the public with helpful advice for doing so, the magnitude of the issues before us require an increase in thoughtful leadership from federal and state lawmakers.

America's energy woes are complex and far reaching. The gasoline price volatility consumers are experiencing at the pump is the result of the escalating price of world crude oil, rapidly increasing world-wide demand for energy and America's growing insecurity as the world's largest importer of oil and gasoline. Experts say the weakening of the dollar in response to our large trade and budget deficits may also be playing a significant role. On the domestic side – and clearly of our own doing – there is price volatility spawned by the reliance in some markets on a variety of fuel blends to serve clean air or economic goals.

America may not be able to control the world price of crude oil or influence demand in other countries. But, we can exercise more influence over our own destiny. But, to do so, will require leadership and action by the federal government, as well as active participation by consumers and business leaders.

In the area of energy demand and especially demand for gasoline, more can and must be done to encourage conservation. Motorists must reduce consumption by using their most fuel efficient car, avoiding unnecessary trips, maintaining their vehicles, driving “gently” and carpooling or using public transportation whenever possible. We should avoid the impulse to horde gas or constantly top off tanks. Even in the best of times there is not enough fuel in the system to fill every car and truck to the top of their fuel gauge.

As previously stated, all consumers do not have the same economic incentives to do more with less. Inexorably, rising prices hit hardest those at the lowest end of the income scale, and do not therefore constitute a workable fuel conservation or air quality improvement program. AAA believes the nation – industry and government – must commit to achieving higher fuel economy standards on all vehicles. Congress should clarify that the Administration has the authority to raise fuel economy standards for passenger vehicles. Once that authority is granted, the Administration should exercise the authority so that real gains are achieved in fuel efficiency without compromising safety.

Likewise, government should continue to work with the private sector in developing alternative fuel and vehicle programs.

In the area of energy security, a previous generation of Americans were wise to invest in a strategic petroleum reserve for the United States that has somewhat lessened the dangers of an abrupt disruption of oil imports. Unfortunately the same can not be said with regard to gasoline. Hurricanes Katrina and Rita have taught us the United States needs a cushion of available gasoline in times of emergency, especially now that the nation imports more than 10 percent of its refined products from offshore. AAA believes Congress and the Administration should explore measures that would enable a minimum level of mandatory refined product inventories. Such a system exists in Europe and was able to provide critical gasoline to the United States during production shortfalls that occurred following last year's hurricanes. Should similar or worse disasters occur in the future, our ability to immediately move gasoline to areas that need it will again prove critical to people and the economy.

At present, AAA is concerned that the level of preparedness based on experiences from last summer's hurricane season have not resulted in meaningful short- and long-term action to address fuel availability. More planning must be done to ensure fuel is available during evacuations, in the immediate aftermath of storms or from other widespread damage, and in areas far-removed from a disaster site that might lose access to energy resources as a consequence. Electricity generating equipment needs to be available at gas stations, for example, so fuel can be dispensed when power lines are down.

In the area of boutique and bio-fuels, a much more coordinated approach is needed between the federal and state governments, and all of the many industries affected by changes in the way we make gasoline. Industries that are forced to frequently change the composition of their products, or make specialty products for small markets, lose efficiency and incur increased costs from a variety of causes that include raw materials, labor, maintenance, storage, transportation, research and regulatory compliance. Those costs are understandably passed to consumers, a process that becomes especially easy when the industry involved is operating with a minimum of spare capacity and low inventories. Such a situation also invites speculation in the price of the commodity, further driving up costs to consumers.

While this is an extremely complex problem and there are no simple solutions, AAA encourages federal and state officials to reach agreement on the use of a smaller number of fuel blends that will meet or exceed our clean air goals and be as widely used as possible. As these transitions are made, more careful attention must be paid to the implementation process by federal and state agencies. Significant investments have already been made in boutique fuels, and untangling this apparatus will require careful oversight. For example, the transition between MTBE and ethanol

seems to have resulted in temporary fuel shortages in some locations and appears to be one of the contributors to today's high fuel prices. That type of experience must not be repeated.

As for the value of the dollar and its implications for the global price of oil, AAA leaves that topic to others who are much more qualified to comment. It is important for Congress and the White House to resist measures that would excessively subsidize energy to make it cheaper for Americans while driving up the nation's indebtedness.

Thank you again Mr. Chairman for allowing AAA to address this distinguished Committee.



Geoff Sundstrom – Director, Public Affairs

Geoff Sundstrom is Director, AAA Public Affairs and is based at AAA's National Office in Heathrow, Florida. He is a widely-quoted source on a variety of automotive and travel topics, and is AAA's leading spokesperson on energy issues, including gasoline prices. He has managed AAA's well-known Fuel Gauge Report gasoline price survey (www.aaafuelgaugereport.com) since the late 1980's, including its migration from a paper-based product to the Internet in 2000. He is the author of AAA's Gas Watcher's Guide, a free brochure that helps consumers conserve fuel. Geoff is interviewed on a regular basis by national financial and consumer media, and advises local AAA clubs on media relations. He is at the forefront of AAA's efforts to respond to gasoline price spikes or reports of fuel outages. Geoff joined AAA in 1989 after working for eight years as a business journalist in Washington, D.C. for *Automotive News* magazine, the *New York Journal of Commerce* and *Kyoto News Service*. Geoff holds a journalism degree from Northern Arizona University in Flagstaff.

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